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SUBJECT: Honduras Welcomes Planned Central American Refinery

REF: A: MEXICO 06895

B: TEGUCIGALPA 02194

1. (U) SUMMARY: A senior Honduran Trade official reacted positively to a Central American Refinery proposed by Mexico, indicating that a northern Honduran port city would be an excellent selection for the site. The enthusiasm may change pending the definitive results of the November 27 Presidential elections. Establishing such a refinery might reduce the appeal of Venezuela's PetroCaribe, and may hasten the integration of Central America's fuel market. Where the financing will come from remains unclear. END SUMMARY.

2. (U) In a meeting with Ambassador and EconChief, Honduran Trade and Commerce Minister Irving Guerrero expressed considerable enthusiasm regarding Mexico's recent proposal to build an oil refinery in southern Mexico or Central America. Per ref (a), Mexico has proposed a regional energy strategy that includes, among other considerations, the construction of a \$3.5 billion refinery. The precise location of the project has not been determined, but Honduras and several other Central American countries have expressed interest in being the site for the refinery. The project would represent significant investment dollars and an increase in employment opportunities in the region.

3. (U) Guerrero was confident that Honduras -- with one of the best deep-water Caribbean ports (Puerto Cortes) in the region, and a planned major road project linking the port to El Salvador and Nicaragua -- would be a strong candidate for the refinery. In a recent news article Guerrero said, "Honduras is extremely well positioned for this project, although obviously other (Central American) countries believe that they are just as well positioned." Costa Rica has the advantage of an existing, though small scale, refinery, while Guatemala is physically located closer to Mexican oil wells.

4. (SBU) The November 27 Honduran presidential elections have not yet been certified by electoral authorities, but unofficially it appears that power will shift to the Liberal Party in January. This change in national leadership could have (as yet unknown) impacts on Honduras' position regarding the refinery. Mexico's President Fox has called a meeting of Central American Presidents in early December to discuss the energy plan. The GOH has indicated that President Maduro is tentatively scheduled to attend, though with results of the elections still unconfirmed, that could change as well. Given the economic benefits to Honduras, it is likely both presidential candidates would be in favor of the plan.

5. (U) A Central American refinery would significantly expand the market for Mexico's heavy Maya crude, while offering a regional alternative to Venezuela's fledgling PetroCaribe plan. While the immediate economic benefits to Honduras of a refinery-- job creation and investment -- are clear, just how the refined fuel would be distributed throughout the region is not. Each country maintains a separate and unique system of pricing and distributing fuel, and a centralized approach would require a close synchronization of the different policies. Guerrero noted, however, that tariffs on intra-regional fuels trade are zero, and harmonization of fuel standards in the region is all but complete, with notification to the WTO pending. The only significant obstacle to be overcome, Guerrero said, would be administration of sales taxes, which vary substantially from country to country.

6. (SBU) Per ref (a), the bulk of the financing for the refinery would likely come from the World Bank (WB) or the Inter American Development Bank (IDB). However, a WB representative based in Honduras indicated that "there was a lot of talk about this, but we are not financing it and the IDB is not financing it either." He would not rule out the private arms of both institutions being involved, "as long as the government isn't involved." Coincidentally, a consultant hired by the GOH (ref b) to study fuel pricing and distribution in Honduras will soon release his third and final report on the issue, in which it is expected he will

recommend a government tender process for fuel imports. In a meeting with EconChief and EconOff, the consultant indicated support for the tender (in which the GOH would act as bulk buying agent for refined petroleum products imports), which he characterized as a first step towards what the consultant considered "a regional approach to buying and storing fuel."

17. (SBU) The Mexican proposal also calls for up to eight percent investment from international investors, per ref (a). Major gasoline distributors in Honduras, which include Texaco and Exxon, have heard of the planned refinery, but have not begun to seriously consider the business case aspects with the limited information available. Minister Guerrero has requested a meeting with at least one distributor (Texaco). Congressman Jack Arevalo, head of the Congressional Committee on Energy, commented that a few U.S. companies had expressed interest in investing in the refinery, as well as several unidentified Middle Eastern countries. Kuwait reportedly proposed a similar refinery project in the Honduran port city of Trujillo in the mid-1990s, but the plan never advanced.

8.(SBU) Comment: Assuming economies of scale from a properly-sized refinery and an open regional market, a Central American refinery could make economic sense for a region that has limited control over its fuel supply. Equally importantly, the proposal offers a valuable political alternative to Chavez's PetroCaribe scheme, diversifying the region away from Venezuela's volatile policies. A refinery located in Puerto Cortes would bring additional investment and jobs to the region, multiplying the economic boost it is expected to get from increased trade under CAFTA. We expect the refinery proposal will receive careful attention and likely support from either a Liberal or National Party administration, particularly if a GOH fuel tender is implemented in the coming year. However, much depends on the business fundamentals of the venture. With the WB and IDB wary of committing significant funds, more private investment than expected may be required. End Comment.

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